

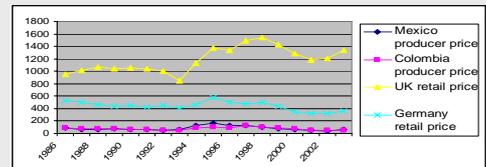
The Impacts of Fair Trade

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1 Background

The **decline of commodity prices** and unjust market relations has dramatically impacted on the lives of millions of small-scale producers in developing countries. The price index of commodities declined 47% between 1982 and 2001. Concurrently, the prices of fertilisers, pesticides and machinery have been on the rise. As a result, market prices frequently drop below the cost of production, **negatively affecting producer livelihoods**. The paradox is that while the food chain as a whole is profitable, the **gap between the price producers receive and retail prices has grown**.

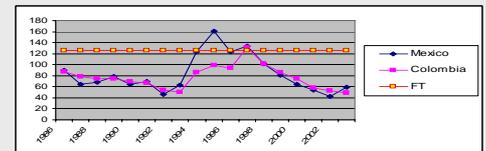
Graph 1: Comparison of Coffee Retail Prices and Producer Prices (\$US/pound)
Source: International Coffee Organization



2 Definition

Fair Trade (FT) seeks to address this problem by changing the unequal trade relations by **directly linking producers and consumers**. The trading partnership aims at sustainable development for excluded and disadvantaged producers by providing better **trading conditions** (e.g. pre-financing, minimum price guarantees, capacity building) as well as by **awareness raising** and campaigning. In recent years FT has experienced substantial growth in terms of sales, product range and labeling initiatives

Graph 2: Coffee prices received by producers (\$US/pound)
Source: International Coffee Organization



3 Impacts on different stakeholders

Despite the impressive growth of FT, little is known about its effectiveness. The review of academic and grey literature found the impact of FT on different stakeholders to be varied. While impacts are tangible and generally favourable at the producer and producer organization level, they are more difficult to discern for other stakeholders:

Producers

The **sustainable livelihoods framework** is used to assess the impact of FT on producers and their families. Through the minimum price guarantee and social premium, producers are awarded a degree of **financial stability**. Long-term contracts with buyers ensure a stable income flow. The pre-financing requirement of FT buyers, allows producers to smooth consumption. FT has helped to **empower individual producers** and their families by enhancing human and social capital. In many cases, the social premium is used to fund training programs for producers. Alternative Trading Organisations as well as Non-Governmental Organisations (NGOs) also provide assistance and training to FT producers to help them successfully **access the market**. In addition, the increased income of producers has assisted them in covering **education and health** expenses. The combined effects lead to improvements in producer confidence and self-esteem. But the positive **impacts are limited by the movement's size**. FT only benefits a small number of producers – it currently represents only 0.01% of global trade. In addition, it does not necessarily target the poorest members of society, as most beneficiaries are existing landowners.

Businesses

A causal link between FT and beneficial effects on business is not well established. In contrast, the reverse linkage looking at business' effect on FT shows a possible negative impact on the movement as a whole. Financially businesses may benefit from FT through **increased sales revenues** and greater **access to finance** as many investors and creditors now have ethical funding requirements. As the movement has become more mainstream, the marketing focus of traditional companies has shifted from extolling the ethical principles of FT to **product quality**. For mainstream businesses with FT products (e.g. Starbucks, Tesco), FT marketing has enabled them to **enhance their public image**. An abundance of logos, labels, certifications and regulating authorities can **confuse consumers** and may dilute the intended benefits to the producers.

Producer organisations

The primary economic impact is the **new working capital** that producer organizations gain from the pooling of social premiums. In some cases, FT is responsible for the **creation** of producer cooperatives; in others, it **strengthens the organisational and technical capabilities** of existing organisations. Uses of the social premium include **producer training, infrastructure** development, and creating capital funds for **credit**. Benefits of the social premium, however, are dependent on the competency of the individual organization and the interests represented when making investment decisions. FT also helps empower producer organisations by developing linkages and building **social capital**. Some producer organisations have established subsidiary organisations for development purposes or pursued new business opportunities. A potential negative impact of FT is **increased dependency** among producers and producer organisations. There is little reporting of producer groups negotiating favourable contracts in the mainstream commercial market; improved market access is restricted, for the most part, to alternate trade markets. This is truer for handicraft cooperatives than commodity based cooperatives.

Governments, the EU and the WTO

Impacts of FT on governments, the EU, and the WTO are **negligible**. The literature is limited, and the issue is further **confused with overlapping usage of the term**: fair trade as improved relationships between consumers and producers and fair trade as changes in trade policy related to tariffs and openness. The majority of the FT organisations also lobby for policy changes for *fairer* trade. Thus, engagement with governments, the EU and WTO entails both issues. Advocacy for the changes in trade policy to make trade *fairer* have had limited success. While **FT organisations have increased their visibility through lobbying efforts**, they have had **limited to no impact on policy**. Advocacy for the promotion of FT products and projects have resulted in more tangible effects. **Financial contributions**, though nominal, were made by the EU, as well as by European governments including the UK, Germany, and France.

4 Methodologies for the Assessment of Impacts

Part of the challenge in assessing the impact of FT is the **lack of clear methodologies** and FT specific indicators. Attempts for the development of a methodology for FT resulted as a slight **alteration of traditional methodologies**. Impact assessment of FT is further complicated by **problems of attribution**. Establishing a causal link between FT and the well being of producers and producer organisations is challenging. Many variables affect the vitality of producers and producer organisations. Of the studies that examined impact at the producer and producer organisation level, which followed a formal methodology, the **livelihood and participatory approaches** were most common. In most of these cases, however, the framework was **not strictly adhered to or defined**. Moreover, the few reports of impacts on other stakeholders did not identify a formal methodology. Thus, impact assessment remains limited and **focuses mainly on the impacts on producers**.

5 Conclusions

The **predominance of positive benefits** highlights the potential of FT as a tool for significant poverty reduction, if applied on a wider scale. There are significant issues, however, that are associated with **increasing the overall size of the movement**: increasing **influence of big business** which may threaten the ethical foundations; **limited political support**; **marginal market demand**. In spite of these issues, FT's success to date, particularly in its impact on producers and producer organisations, is a **testimony to the successful role of market mechanisms in development processes**.

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